

IDAHO FORECAST DESCRIPTION

The Forecast Period is the First Quarter of 2003 through the Fourth Quarter of 2006

It appears Idaho's economy fared better in 2002 than had been previously reported. In the April 2003 *Idaho Economic Forecast*, DFM reported that Idaho nonfarm employment had declined 0.7% last year. This analysis was based on two quarters of historical data, one quarter of preliminary data, and a quarter of forecasted data. Since then, the Idaho Department of Labor has provided updated data that show employment growth was actually stronger. Specifically, it now appears there was no job decline from 2001 to 2002. A major reason for this can be traced to the preliminary data. The previous forecast has a 3.2% employment dip in the third quarter of last year. The revised data has total nonfarm employment not declining, but growing at a 1.0% annual rate in that quarter. This raises the starting point of the employment forecast by over 6,000 jobs. Unfortunately, because of the change to NAICS from SIC, it is impossible to provide employment detail comparisons below the aggregate level.

A review of Idaho personal income also shows an improvement. Last spring the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) published its estimates of Idaho personal income. As part of this release, the estimates back to 1999's first quarter were lowered. As a result, Idaho personal income is reported at \$28.90 billion in 1999, \$31.18 billion in 2000, and \$32.36 billion in 2001. Idaho personal income was reported as \$28.93 billion in 1999, \$31.31 billion in 2000, and \$32.53 billion in 2001 in the previous *Forecast*. The previous estimate for 2002 of \$33.65 billion was based on three quarters of historical data and one quarter of projected data. The new estimate of \$33.61 billion is solely based on historical data. While the estimate for 2002 was reduced, it is important to point out income growth from 2001 to 2002 has actually increased. Specifically, Idaho personal income grew 3.4% from 2001 to 2002 under the old estimates, but increased 3.8% based on the revised estimates. The difference is even more noticeable after adjusting for inflation because the inflation rate is lower in this *Forecast* compared to the previous one.

While the revisions have changed the histories of the employment and income series, the projections for these two series have changed little from their previous forecasts. In April 2002, the forecast called for Idaho nonfarm employment to grow gradually over the forecast period after suffering a setback in 2002. The new forecast is similar. Nonfarm employment advances 0.4% in 2003, 1.2% in 2004, and 1.7% in 2005, and 1.6% in this forecast. In the previous forecast employment 0.1% in 2003, 1.5% in 2004, 1.7% in 2005, and 2.0% in 2006.

The current Idaho personal income forecast is also relatively unchanged compared to the previous one. In the April 2003 *Idaho Economic Forecast* Idaho nominal personal income was anticipated to rise 4.3% in 2003, 5.3% in 2004, 5.1% in 2005, and 6.0% in 2006. It is now believed Idaho personal income will increase 3.5% this year, 5.2% next year, 5.2% in 2005, and 5.5% in 2006.

The similarities between the two Idaho forecasts are not coincidences. They reflect the fact that the national forecasts have not changed significantly from May to June of this year. It is still forecast that the U.S. economy will pick up steam in the second half of this year and 2004 will be the strongest year during the forecast period.

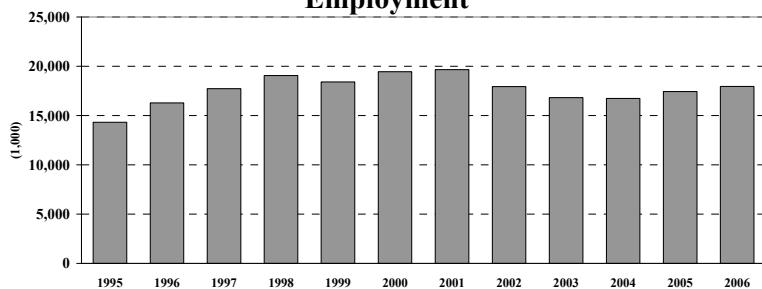
SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: One of the benefits of the new NAICS is it presents a more focused view of the state's industries. A good example of this is high-tech. Under the old SIC, high tech consisted of both electrical and nonelectrical machinery. Nonelectrical machinery was used because it included computers and peripheral devices manufacturing. The inclusion of computers in this category is based on an archaic

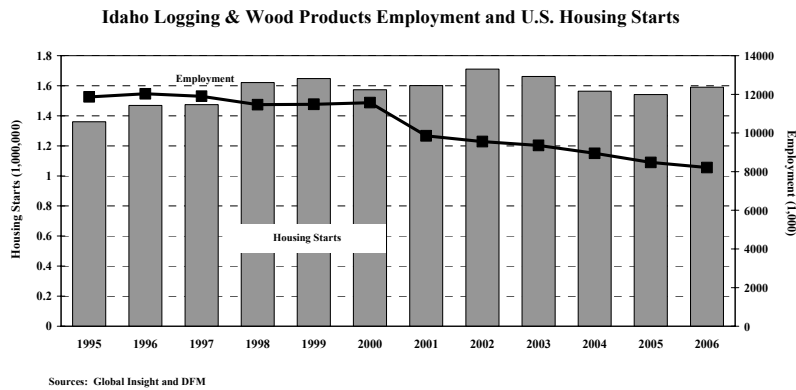
definition of computing devices that dates back to when calculators were powered by hand cranks and their operators were called computers. Thus, in order to include computers in high-tech, the nonelectrical machinery category was used. Unfortunately, it was broad and included other sectors that were not high-tech related. Under NAICS, high-tech more aptly consists just of computers and electronics. This new data shows the state's high-tech sector is not immune from the vagrancies of the business cycle. This sector's employment has been racked recently by the collapse of real U.S. business investment. Fueled by the introduction of new computer hardware and software, Y2K fears, the Internet, and the Telecommunications Act of 1996; real business spending on information process equipment grew at double-digit rates from 1992 to 2000. However, its fortunes reversed quickly. In 2001, spending shrank nearly 6.0%, its first decline since 1975. It then grew by just under 3.0% in 2002. This protracted slowdown has taken its toll on local companies. Most recently,

Micron laid off around 1,100 workers in the Treasure Valley. Company-wide, Micron reduced its work force by 10%, or about 1,800 employees. This move was part of the company's plan to reduce costs in response to the one of the most challenging periods of this young industry's history. Micron is the world's second largest manufacturer of computer memory products. Its primary competitors are Samsung, Infineon, and Hynix. Unfortunately, this is just one in a series of layoffs. Previously, approximately 500 jobs were lost when Jabil Circuit shuttered its two-year old Meridian manufacturing plant. In addition, layoffs by other firms have cost this sector approximately 4,000 jobs during the current downturn. There are signs the industry is poised for growth, but a return to the go-go years of the recent past is unlikely. Several factors suggest this sectors worst episode in recent memory is behind it. First, real spending on equipment is beginning to show signs of life, and it is expected to accelerate over the forecast period. Specifically, during the forecast period it is forecast to average about 10.0% growth per year. While this is well below the 1990's pace, it is a welcome change from its showing earlier this decade. Another factor that bodes well for Micron is the U.S. Department of Commerce's decision to charge Hynix a 57.37% tariff on computer memory it sells in the U.S. This ruling was made in response to complaints the South Korean government was unfairly subsidizing Hynix. If the tariff were made permanent it would effectively prevent Hynix from marketing its products in the United States, which would probably be the demise of Hynix. Interestingly, complaints by European memory manufacturers have led to similar actions by the European Union. The loss of this company in a field crowded with competitors could ease supply, which in turn would boost prices. Idaho's electrical and nonelectrical sector's employment is expected to decline 6.2% this year, 0.5% next year, grow 4.2% in 2005, and 2.9% in 2006.

**Idaho Computer & Electronic Products
Employment**



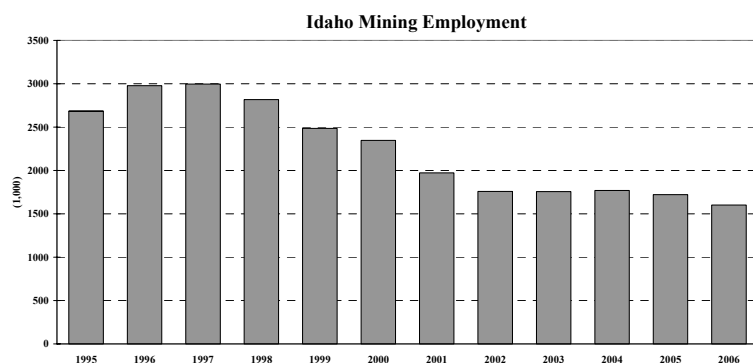
Lumber and Wood Products: The outlook for the state's logging and wood products sector remains dismal. Specifically, this sector's employment is expected to shrink in each year of the forecast, as



unfavorable businesses conditions buffet one of Idaho's cornerstone resource industries. What is especially disappointing is that Idaho has fared so poorly during a period of such strong demand. On its surface this runs counter to common sense. The number of Gem State logging and wood product jobs has been contracting since 2000. In contrast, U.S. housing starts expanded from 1.57 million starts in 2000 to 1.71

million starts in 2002. What is occurring is not some exception to the laws of economics. In fact, it is simply a case of demand and supply. The current situation is being shaped not by demand, but by supply. Put simply, the world is awash with supply, and this is keeping prices low despite the healthy demand. Ironically, the strong domestic demand for wood products has exacerbated this problem. The global demand for these products is relatively weak, so exporters have redirected their goods to the hot U.S. market. This has resulted in low prices for domestic producers. At the same time, these producers have seen the supply of relatively inexpensive timber from public lands disappear. This has hit Northwest states particularly hard because they are dependent on logs from public forests. Idaho is no exception. According to the U.S. Department Agriculture, the total amount of timber harvested in Idaho fell from 1.8 million board feet in 1990 to 1.2 billion board feet in 2000, a 31% drop. These data also show that harvests from Idaho national forests fell an astounding 78% over this decade. These low prices have squeezed many companies' profits to the point where they have had to curtail operations. For example, approximately 125 jobs were lost when the former Boise Cascade mill in Cascade, Idaho ceased operations in 2001. About 250 jobs were lost last year when the Emmett, Idaho mill was closed. Potlatch shuttered its Jaype Mill near Pierce the previous year, a move that cost about 215 high-paying jobs. Unfortunately, timber supply is not the only supply issue facing this sector. A structural problem is its chronic over capacity. One estimate shows this industry is already geared up to produce 20% to 25% more lumber than is being consumed in North America and Canada. It is anticipated the industry will gradually regain its balance as the excess supply disappears. However, this will come from the closure of older and less-efficient mills. Unfortunately, mill closings have become an all-too-frequent occurrence in the West. *Random Lengths* recently reported that there were 337 sawmills, plywood plants, veneer mills, and board mills operating in Oregon, Washington, California, Idaho, and Montana, which was just over half the 663 that were in operation ten years ago. Idaho's logging and wood products employment is expected to decline from 9,356 in 2003 to 8,212 in 2006.

Mining and Chemicals: After suffering five years of decline, the state's mining sector employment should be flat in both 2003 and 2004. Unfortunately, this respite will be temporary, and employment is forecast to begin declining again in 2005. After peaking at about 3,000 jobs in 1997 this sector had less than 1,800 jobs in 2002. Not all the recent news has been negative, however. Ledcor recently announced it was



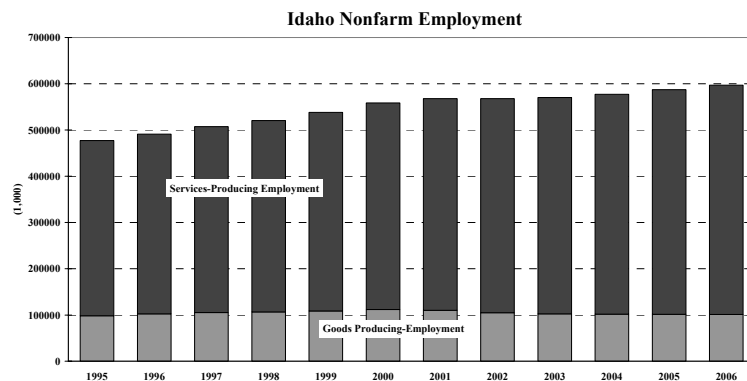
recalling 40 to 50 workers back to the Thompson Creek Molybdenum Mine. The move reflects improved molybdenum prices. Interestingly, this has not been the first time the company has resumed operations over the last year. Strong prices helped restart the plant in July 2002, but it was closed in November as prices eroded. Unlike the mining sector, the state's chemical sector is projected to decline through 2004. But none of these declines will come near the magnitude of the 17.2% decline in 2002 when 400 jobs were lost. This huge drop resulted from the closing of the Astaris (formerly FMC) elemental phosphorous plant located just outside of Pocatello. The plant was a major employer in the community, and its high-paying jobs will be missed. Unfortunately, Astaris is not the only Gem State chemical manufacturer to fall on hard times. Kerr-McGee closed its Soda Springs plant due to the low price of vanadium. The chemical sector should begin adding jobs beginning in 2005. However, its recovery will be gradual and employment numbers will not approach the levels experienced before Astaris turned off its furnaces. Idaho mining employment is expected to grow slightly in 2004, but decline in the other years. Chemical sector employment should grow marginally in 2005, but sustain losses in the other years of the forecast.

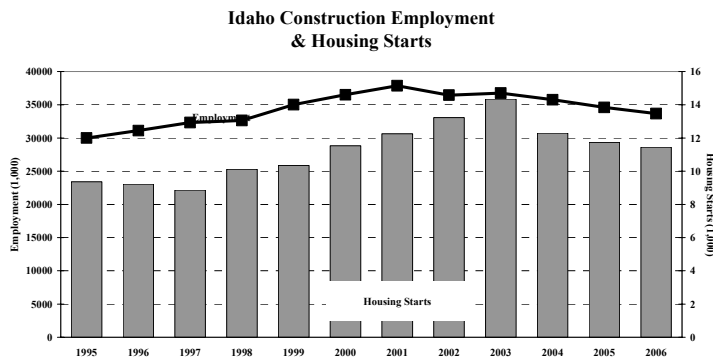
Services-Producing Industries: One

of the biggest advantages the NAICS has over the SIC is it offers a much more detailed look at the services sector. This is important because the services sector is the largest and fastest growing part of the economy. In Idaho last year, more than four out of every ten jobs was in the services-producing sector. From 1991 to 2002, the number of service-producing jobs increased 63.2% from

1991 to 2002. In comparison, total Idaho nonfarm employment expanded by 44.1%. The three largest services components are: professional and business services; education and health services; and leisure and hospitality services. Together they account for nearly 72.0% of total service-related employment in 2002. In addition, professional and business services and education and health services have posted strong, consistent growth. The next largest group consists of sectors with employment of around 20,000 each. Financial services; transportation, warehousing, and utilities; and other services make up this group. The smallest sector is information services with about 9,200 jobs. The services-producing sectors can be grouped another way, into those that are expected to grow faster than average and those that will grow slower than average. Over the forecast period Idaho services-producing employment should average 2.4% annual growth. Although only two sectors are expected to beat the average, they are major employers. Leisure and hospitality services should be the fastest growing sector, averaging 3.3%. It will be followed closely by education and health services, which advances 3.2%. The state's other large services employer, professional and business services, is forecast to grow 2.2%, which is just shy of the average. Information services also grow 2.2%. Financial Services employment is anticipated to average 1.8%, while other services and transportation, warehousing, and utilities are not expected to break 0.5% growth.

Construction: Idaho's construction sector is forecast to take a breather during the forecast period after booming for several years. Both the NAICS- and SIC-based data show this sector's employment advanced steadily through most of the 1990s and early part of this decade. According to NAICS, Idaho construction employment grew from 20,350 in 1991 to 37,860 in 2001, an 86.0% increase. The SIC data show an 84.4% increase over this same period. The data also show the construction sector

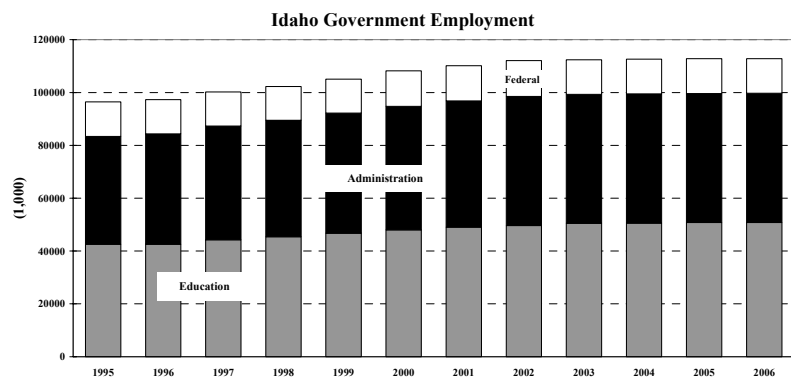




registered a decline in 2002. This has raised fears that after years of booming, construction is entering the bust phase of the business cycle and will begin to hemorrhage jobs. This forecast does show construction jobs being lost, but declines should not be steep. This is because Idaho does not have the huge building inventory overhang associated with the down side of the construction cycle. The rapid rate of growth during the 1990s

resulted from the combination of the dearth of building in the previous decade and the state's population explosion during the 1990s. This resulted in the construction sector being in catch-up mode during most of this period. Thus, supply did not have the opportunity to get significantly ahead of demand. In fact, instead of declining, the number of Idaho housing starts has actually been increasing since 1997. Housing starts are expected to decline next year, but still be at a respectable 12,211 units. After 2004, Idaho housing starts should hover just above 11,000 units per year. Idaho construction employment is forecast to rise 0.8% this year, then decline 2.7% next year, 3.2% in 2005, and 2.7% in 2006.

Government: The outlook for all facets of Idaho government employment is flat. This is a big change from the 1990s for state and local government employment. During that period, the influx of new residents strained the capacities of governments. As a consequence, employment expanded 2.8% annually to meet the demands of the exploding population. Growth began to taper down as Idaho's population cooled with the start of the new millennium.



New laws that limited the growth of local units of governments' budgets curbed growth further. As a result, Idaho state and local government employment slowed from 3.1% in 1999, to 2.7% in 2000, to 2.2% in 2001, and to 1.7% in 2002. Tight budgets promise to take growth even lower. Over the forecast period, Idaho state and local government employment should advance just 0.8% in 2003, increase 0.2% in 2004, and rise 0.1% in both 2005 and 2006. Budget constraints should hold Idaho federal government employment levels virtually steady.

Food Processing: Idaho's food processors will face two major hurdles over the forecast period. The first is the weak market for frozen French fries and other processed potato products. Some companies have temporarily curtailed production and laid off workers in response to the current market imbalance. Experts believe the current weak demand reflects consumers retrenching in response to the war with Iraq. They make their case based on consumers' behavior during the previous Gulf War. However, unlike the previous conflict there have arisen concerns that the demand for French fries and potato products are going through a structural change. Whether this is occurring or the market is riding out its business cycle remains to be seen. The second challenge also concerns the potato processing industry. New production facilities are being built in Canada instead of the U.S. For example, J.R. Simplot

Company recently opened its newest plant in Canada. In recent years Canada has become a major player in the processed potato market. For example, it has been reported that the U.S. became a net importer of French fries in 2000. This trend is expected to continue through 2005 as additional Canadian capacity comes on line. Unfortunately, as more Canadian capacity comes online, it makes older, less efficient plants

vulnerable to closures. This has occurred in Idaho. Simplot announced it plans to shutter its Heyburn, Idaho plant in April 2004. Approximately 300 employees were recently employed at the plant. This has raised speculation that other plants may be sharing in the fate of the Heyburn plant. One Idaho sector that has enjoyed strong growth is the state's dairy and milk processing, particularly in the Magic Valley. Over the years, Idaho has seen its dairy herd expand and the capacity to process that milk increase. Another positive is Idaho's food processing industry is diversifying. Idaho is home to Grupo Modelo's first plant outside of Mexico. The company is building a \$64 million plant in Idaho Falls. The plant will have the capacity to process 100,000 metric tons of barley malt per year for the Mexican brewing company. Idaho food processing employment is forecast to dip 3.8% this year, rise 0.8% next year, 1.6% in 2005, and 1.3% in 2006.

